INDEX TO FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

December 31, 2015, 2014 and 2013

MANAGEMENT'S ANNUAL REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of W.W. Grainger, Inc. (Grainger) is responsible for establishing and maintaining adequate internal control over financial reporting. Grainger's internal control system was designed to provide reasonable assurance to Grainger's management and Board of Directors regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements under all potential conditions. Therefore, effective internal control over financial reporting provides only reasonable, and not absolute, assurance with respect to the preparation and presentation of financial statements.

Grainger's management assessed the effectiveness of Grainger's internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). Based on its assessment under that framework and the criteria established therein, Grainger's management concluded that Grainger's internal control over financial reporting was effective as of December 31, 2015.

Ernst & Young LLP, an independent registered public accounting firm, has audited Grainger's internal control over financial reporting as of December 31, 2015, as stated in their report, which is included herein.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders
W.W. Grainger, Inc.

We have audited W.W. Grainger, Inc. and subsidiaries' (the "Company") internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). W.W. Grainger, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, W.W. Grainger, Inc. and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of W.W. Grainger, Inc. and subsidiaries as of December 31, 2015 and 2014, and the related consolidated statements of earnings, comprehensive earnings, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2015 of W.W. Grainger, Inc. and subsidiaries and our report dated February 29, 2016 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Chicago, Illinois
February 29, 2016

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders
W.W. Grainger, Inc.

We have audited the accompanying consolidated balance sheets of W.W. Grainger, Inc. and subsidiaries as of December 31, 2015 and 2014, and the related consolidated statements of earnings, comprehensive earnings, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2015. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of W.W. Grainger, Inc. and subsidiaries at December 31, 2015 and 2014, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2015, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), W.W. Grainger Inc. and subsidiaries' internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 29, 2016 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Chicago, Illinois

February 29, 2016

W.W. Grainger, Inc. and Subsidiaries
CONSOLIDATED STATEMENTS OF EARNINGS
(In thousands of dollars, except for share and per share amounts)

	For the Years Ended December 31,		
	2015	2014	2013
Net sales	$ 9,973,384	$ 9,964,953	$ 9,437,758
Cost of merchandise sold	5,741,956	5,650,711	5,301,275
Gross profit	4,231,428	4,314,242	4,136,483
Warehousing, marketing and administrative expenses	2,931,108	2,967,125	2,839,629
Operating earnings	1,300,320	1,347,117	1,296,854
Other income and (expense):			
Interest income	1,166	2,068	3,234
Interest expense	(33,571)	(10,093)	(13,225)
Loss from equity method investment	(11,740)	—	—
Other non-operating income	1,102	483	2,732
Other non-operating expense	(6,572)	(5,189)	(1,996)
Total other income and (expense)	(49,615)	(12,731)	(9,255)
Earnings before income taxes	1,250,705	1,334,386	1,287,599
Income taxes	465,531	522,090	479,850
Net earnings	785,174	812,296	807,749
Less: Net earnings attributable to noncontrolling interest	16,178	10,567	10,713
Net earnings attributable to W.W. Grainger, Inc.	$ 768,996	$ 801,729	$ 797,036
Earnings per share:			
Basic	$ 11.69	$ 11.59	$ 11.31
Diluted	$ 11.58	$ 11.45	$ 11.13
Weighted average number of shares outstanding:			
Basic	65,156,864	68,334,322	69,455,507
Diluted	65,765,121	69,205,744	70,576,432

The accompanying notes are an integral part of these consolidated financial statements.

W.W. Grainger, Inc. and Subsidiaries
CONSOLIDATED STATEMENTS OF COMPREHENSIVE EARNINGS
(In thousands of dollars)

	For the Years Ended December 31,		
	2015	2014	2013
Net earnings	$ 785,174	$ 812,296	$ 807,749
Other comprehensive earnings (losses):			
Foreign currency translation adjustments:			
Foreign currency translation (loss) gain, net of tax benefit of $0, $2,806 and $4,078, respectively	(154,096)	(127,847)	(78,253)
Net investment hedge gain, net of tax expense of $0, $(2,360) and $(3,393), respectively	—	3,782	5,438
Reclassification of cumulative currency translation	—	9,042	—
Net foreign currency translation (loss) gain	(154,096)	(115,023)	(72,815)
Defined postretirement benefit plan:			
Defined postretirement benefit plan, net of tax (expense) benefit of $(19,056), $14,140 and $(21,632), respectively	30,451	(22,667)	35,045
Reclassification adjustments related to amortization, net of tax expense of $2,043, $2,545 and $1,444, respectively	(3,246)	(4,072)	(2,387)
Net defined postretirement benefit plans	27,205	(26,739)	32,658
Other employment-related benefit plans:			
Gain (loss) on other employment-related benefit plans, net of tax benefit of $0, $440 and $313, respectively	641	(1,462)	(1,319)
Reclassification adjustment related to plan amendment and settlement, net of tax benefit of $(2,324)	—	6,971	—
Net other employment-related benefit plans	641	5,509	(1,319)
Derivative instrument change in fair value of cash flow hedge	1,300	786	1,190
Total other comprehensive earnings	(124,950)	(135,467)	(40,286)
Comprehensive earnings, net of tax	660,224	676,829	767,463
Less: Comprehensive earnings attributable to noncontrolling interest:			
Net earnings	16,178	10,567	10,713
Foreign currency translation adjustments	(532)	(9,880)	(15,622)
Comprehensive earnings attributable to W.W. Grainger, Inc.	$ 644,578	$ 676,142	$ 772,372

The accompanying notes are an integral part of these consolidated financial statements.

W.W. Grainger, Inc. and Subsidiaries
CONSOLIDATED BALANCE SHEETS
(In thousands of dollars, except for share and per share amounts)

	As of December 31,	
ASSETS	2015	2014
CURRENT ASSETS		
Cash and cash equivalents	$ 290,136	$ 226,644
Accounts receivable (less allowances for doubtful accounts of $22,288 and $22,121 respectively)	1,209,641	1,172,924
Inventories – net	1,414,177	1,356,396
Prepaid expenses and other assets	85,670	102,669
Deferred income taxes	—	61,387
Prepaid income taxes	49,018	47,529
Total current assets	3,048,642	2,967,549
PROPERTY, BUILDINGS AND EQUIPMENT		
Land	323,765	337,573
Buildings, structures and improvements	1,352,498	1,269,491
Furniture, fixtures, machinery and equipment	1,694,050	1,508,066
	3,370,313	3,115,130
Less: Accumulated depreciation and amortization	1,939,072	1,790,784
Property, buildings and equipment – net	1,431,241	1,324,346
DEFERRED INCOME TAXES	83,996	16,718
GOODWILL	582,336	506,905
INTANGIBLES – NET	463,294	263,930
OTHER ASSETS	248,246	203,601
TOTAL ASSETS	$ 5,857,755	$ 5,283,049

W.W. Grainger, Inc. and Subsidiaries
CONSOLIDATED BALANCE SHEETS - CONTINUED
(In thousands of dollars, except for share and per share amounts)

LIABILITIES AND SHAREHOLDERS' EQUITY	As of December 31,	
CURRENT LIABILITIES	2015	2014
Short-term debt	$ 353,072	$ 56,896
Current maturities of long-term debt	247,346	23,404
Trade accounts payable	583,474	554,088
Accrued compensation and benefits	196,667	191,696
Accrued contributions to employees’ profit sharing plans	124,587	178,076
Accrued expenses	266,702	245,300
Income taxes payable	16,686	12,256
Total current liabilities	1,788,534	1,261,716
LONG-TERM DEBT (less current maturities)	1,388,414	403,333
DEFERRED INCOME TAXES AND TAX UNCERTAINTIES	154,352	95,455
EMPLOYMENT-RELATED AND OTHER NONCURRENT LIABILITIES	173,741	238,444
SHAREHOLDERS' EQUITY		
Cumulative Preferred Stock – $5 par value – 12,000,000 shares authorized; none issued or outstanding	—	—
Common Stock – $0.50 par value – 300,000,000 shares authorized; issued 109,659,219 shares	54,830	54,830
Additional contributed capital	1,000,476	948,340
Retained earnings	6,802,130	6,335,990
Accumulated other comprehensive losses	(221,091)	(96,673)
Treasury stock, at cost – 47,630,511 and 42,227,178 shares, respectively	(5,369,711)	(4,032,615)
Total W.W. Grainger, Inc. shareholders’ equity	2,266,634	3,209,872
Noncontrolling interest	86,080	74,229
Total shareholders' equity	2,352,714	3,284,101
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 5,857,755	$ 5,283,049

The accompanying notes are an integral part of these consolidated financial statements.

W.W. Grainger, Inc. and Subsidiaries
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands of dollars)

	For the Years Ended December 31,		
	2015	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net earnings	$ 785,174	$ 812,296	$ 807,749
Provision for losses on accounts receivable	10,181	12,945	8,855
Deferred income taxes and tax uncertainties	4,076	(13,732)	(9,319)
Depreciation and amortization	227,967	208,326	180,613
Impairment of goodwill and other intangible assets	—	16,652	26,284
Losses (gains) from non-cash charges and sales of assets	2,765	41,037	(22,155)
Stock-based compensation	46,861	49,032	55,590
Losses from equity method investment	11,740	—	—
Change in assets and liabilities – net of acquisitions and divestitures:			
Accounts receivable	(3,085)	(122,580)	(126,465)
Inventories	(37,737)	(92,443)	(23,636)
Prepaid expenses and other assets	15,788	(24,550)	16,873
Trade accounts payable	23,130	32,019	71,118
Other current liabilities	(70,306)	8,693	(707)
Current income taxes payable	6,943	(1,487)	(4,813)
Accrued employment-related benefits cost	(27,721)	35,027	9,872
Other – net	(5,872)	(1,421)	(3,361)
Net cash provided by operating activities	989,904	959,814	986,498
CASH FLOWS FROM INVESTING ACTIVITIES:			
Additions to property, buildings and equipment	(373,868)	(387,390)	(272,145)
Proceeds from sales of assets	14,857	26,755	26,701
Equity method investment	(20,382)	—	—
Cash paid for business acquisitions	(464,431)	(30,713)	(153,915)
Other – net	466	7,290	(68)
Net cash used in investing activities	(843,358)	(384,058)	(399,427)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net increase in commercial paper	325,000	5,000	—
Borrowings under lines of credit	54,770	108,721	144,805
Payments against lines of credit	(78,559)	(117,277)	(154,450)
Proceeds from issuance of long-term debt	1,307,183	150,504	—
Payments of long-term debt and commercial paper	(52,838)	(170,907)	(16,681)
Proceeds from stock options exercised	60,885	48,579	69,412
Excess tax benefits from stock-based compensation	27,553	33,772	59,984
Purchase of treasury stock	(1,400,071)	(525,120)	(438,473)
Cash dividends paid	(306,474)	(291,395)	(255,466)
Net cash used in financing activities	(62,551)	(758,123)	(590,869)
Exchange rate effect on cash and cash equivalents	(20,503)	(21,633)	(17,621)
NET CHANGE IN CASH AND CASH EQUIVALENTS:	63,492	(204,000)	(21,419)
Cash and cash equivalents at beginning of year	226,644	430,644	452,063
Cash and cash equivalents at end of year	$ 290,136	$ 226,644	$ 430,644
Supplemental cash flow information:			
Cash payments for interest (net of amounts capitalized)	$ 31,591	$ 10,172	$ 12,954
Cash payments for income taxes	$ 442,486	$ 509,378	$ 414,363

The accompanying notes are an integral part of these consolidated financial statements.

W.W. Grainger, Inc. and Subsidiaries
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(In thousands of dollars, except for per share amounts)

	Common Stock	Additional Contributed Capital	Retained Earnings	Accumulated Other Comprehensive Earnings (Losses)	Treasury Stock	Noncontrolling Interest
Balance at January 1, 2013	$ 54,830	$ 812,573	$5,278,577	$ 53,578	$ (3,175,646)	$ 93,454
Exercise of stock options	—	4,035	—	—	64,140	583
Tax benefits on stock-based compensation awards	—	62,385	—	—	—	—
Stock option expense	—	17,373	—	—	—	72
Amortization of other stock-based compensation awards	—	34,049	—	—	—	—
Settlement and vesting of other stock-based compensation awards	—	(37,851)	—	—	(3,709)	—
Purchase of treasury stock	—	—	—	—	(433,758)	(183)
Purchase of noncontrolling interest - Colombia	—	(51)	—	—	—	(9,612)
Net earnings	—	—	797,036	—	—	10,713
Other comprehensive earnings	—	—	—	(24,664)	—	(15,622)
Cash dividends paid ($3.59 per share)	—	542	(253,001)	—	—	(3,007)
Balance at December 31, 2013	$ 54,830	$ 893,055	$5,822,612	$ 28,914	$ (3,548,973)	$ 76,398
Exercise of stock options	—	4,709	—	—	42,920	872
Tax benefits on stock-based compensation awards	—	36,618	—	—	—	—
Stock option expense	—	14,547	—	—	—	152
Amortization of other stock-based compensation awards	—	31,480	—	—	—	—
Settlement and vesting of other stock-based compensation awards	—	(32,711)	—	—	(1,636)	—
Purchase of treasury stock		—	—		(524,926)	(194)
Net earnings	—	—	801,729	—	—	10,567
Other comprehensive earnings	—	—	—	(125,587)	—	(9,880)
Cash dividends paid ($4.17 per share)	—	642	(288,351)	—	—	(3,686)
Balance at December 31, 2014	$ 54,830	$ 948,340	$6,335,990	$ (96,673)	$ (4,032,615)	$ 74,229
Exercise of stock options	—	1,454	—	—	58,713	460
Tax benefits on stock-based compensation awards	—	31,614	—	—	—	—
Stock option expense	—	14,311	—	—	—	163

Amortization of other stock-based compensation awards	—	28,332	—	—	—	—
Settlement and vesting of other stock-based compensation awards	—	(24,235)	—	—	4,122	—
Purchase of treasury stock		—	—		(1,399,931)	(140)
Net earnings	—	—	768,996	—	—	16,178
Other comprehensive earnings	—	—	—	(124,418)	—	(532)
Cash dividends paid ($4.59 per share)	—	660	(302,856)	—	—	(4,278)
Balance at December 31, 2015	$ 54,830	$ 1,000,476	$6,802,130	$ (221,091)	$ (5,369,711)	$ 86,080

The accompanying notes are an integral part of these consolidated financial statements.